



CITY OF DURHAM CITIZENS' FINANCIAL REPORT

For the fiscal year ended June 30, 2006



LETTER FROM THE CITY MANAGER



To the Citizens of the City of Durham:

Durham is not what it used to be. You can see it at American Tobacco, where technology entrepreneurs walk the floors of old tobacco factories. You can see it at the Nasher Museum of Art, where art lovers view contemporary

masterpieces. You can see it at City Hall, where government employees use a new computer system to transact the City's business. As with many cities of similar size, Durham faces the challenge of reinventing itself as it moves from its largely industrial past to a post-industrial future. Durham, the town that tobacco built, is now known as the City of Medicine. The city is evolving from tobacco warehouse to scientific workbench, from a land of farmers to a hotbed of medical research. Every day we live the reality of a Durham in transition.

This year's Citizens' Financial Report reflects the progress of the City of Durham during my second year as city manager. There is a lot going on these days in Durham as success breeds success. Scientists today are able to help patients in ways unimaginable only a few years ago as our health care industry grows in sophistication and prominence. We have a rich diversity of people and facilities; economic opportunities abound for our residents. We're truly a great place to live, work and play, and we're planning for an even brighter future. I'm proud of the work we have accomplished so far, and I'm very grateful for the excellent support of our dedicated and capable City employees.

One of my priorities has been revitalizing downtown. Revitalization is the result of an ongoing conversation between people from a wide range of racial, ethnic, and economic backgrounds. Economic vitality doesn't happen overnight, nor can government alone make it happen. But together we can — and we are — investing in public facilities today to stimulate and prepare for the economic vitality of tomorrow. Every day we continue to improve our neighborhoods, our parks, our transportation options, our public safety and our water and sewer systems to ensure an even brighter tomorrow. There is no one answer, no one action, no one player that can make development happen. Economic development is everybody's business. City government's role is part of a broad-based partnership, consulting and acting in concert with individuals, public and private institutions.

One proof of good management and efficient government is when things get done on time and within budget. Whether it's implementing a new computer system or building a

downtown theater, the City of Durham makes great things happen and makes sure the public gets its money's worth.

I invite you to read this report and to share my pride, confidence and optimism for the future of Durham. During 2006, the City of Durham received the following awards for its financial reporting from the Government Finance Officers Association:

- Certificate of Achievement for Excellence in Financial Reporting (21st consecutive year)
- Award for Distinguished Budget Presentation (18th consecutive year)
- Award for Outstanding Achievement in Popular Annual Financial Reporting (2nd consecutive year)

Moreover, the City has maintained its triple-A credit rating from all three major rating agencies. Our excellent credit reflects solid financial management and results in significant interest savings for our citizens.

The following information provides a financial overview of the City of Durham during its fiscal year July 1, 2005, through June 30, 2006, and illustrates the City's strong financial position. The data presented here was obtained from the audited financial statements included in the Comprehensive Annual Financial Report (CAFR), which provides complete financial disclosure.

The City's official financial statements received a favorable opinion from the City's independent auditors, McGladrey & Pullen LLP, stating the financial statements are fairly presented in conformity with generally accepted accounting principles (GAAP). Please note that the financial information shown here is abbreviated and condensed from the GAAP financial statements shown in the CAFR. Specifically, management's discussion and analysis, budgetary comparisons, component units, basic financial statements, and footnote disclosures are not included here.

Thank you for taking the time to read the Citizens' Financial Report. It is our intention to provide information that is useful to you to understand the City's financial condition. We appreciate any feedback you may have about this report. Please address your comments to either me or to the City Finance Department at the address listed on the back cover.

Sincerely,

A handwritten signature in black ink that reads "Patrick W. Baker".

Patrick W. Baker
City Manager



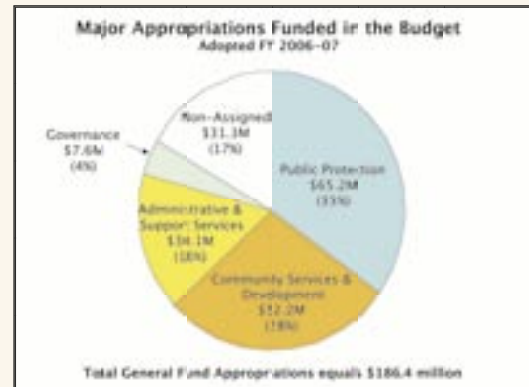
THE CITY OF DURHAM'S BUDGET

The 2006-07 Budget supports the priorities identified by City Council: Reducing crime and addressing its root causes; maintaining core service levels; and implementing the 2005 Bond Program. Feeling safe and lowering the crime rate continue to be the two most important issues raised by the Council and Durham residents. That is why we must ensure that the Police Department, Fire Department, and Emergency Communications Center (911) are staffed and properly equipped to protect our citizens. At the same time, we will support other efforts directed at eliminating the root causes of crime. Code Enforcement and Nuisance Abatement Teams, Citizens Patrols, revitalizing distressed neighborhoods, and additional youth programs make our communities safer. To fund these and other core services at a level our citizens expect and deserve, the City Council adopted a 2 cent property tax rate increase. This increase will yield more than \$2.6 million to maintain the current level of service for the Durham Area Transit Authority (DATA), strengthen our commitment to Public Safety, pay for rising fuel costs, and fund debt service payments while allowing us to continue to have a direct, positive impact on our citizens' daily lives and on our children's future.



Major Appropriations Funded in the Budget Year Ended June 30 (Amounts in Millions)

Budget Ordinance	Adopted FY 2005-06	Adopted FY 2006-07
Public Protection	\$61.2	\$65.2
Community Services and Development	49.2	52.2
Administrative and Support Services	28.9	30.1
Governance	7.5	7.6
Non-Assigned	29.1	31.3
Total General Fund	\$175.9	\$186.4



Budget Highlights

Improving public safety, providing core services as well as hiring and retaining exceptional employees throughout the organization continue to be our highest priorities. To meet these expectations, the Council has adopted a budget for FY 2006-07 of \$342.6 million. This total includes a general fund budget of \$186.4 million, which adequately funds core city services; a 4 percent projected increase in property tax revenue due to growth, plus 5 percent growth in sales tax revenue; and, a 2 cent property tax rate increase to 0.603 cents per \$100 valuation. This equates to an increase of \$2.50 monthly for a \$150,000 home. This tax supports our three goals:

- Crime: Three-quarters of a cent to pay for public safety personnel
- Core Services: One cent to maintain DATA bus services
- Bond Program: One-quarter of a cent to pay for our increased debt service for previously approved capital projects

The City continues to maintain its excellent fiscal status as evidenced by three areas: A continuing AAA bond rating by all three rating agencies, the highest measure of financial security and one attained by only 18 of the nation's 22,529 cities; unqualified opinions by independent auditors of the City's financial statements and compliance with major federal and state grants; and, a strong Audit Services Department, ensuring compliance with applicable laws, policies and procedures. In addition to conducting audits based on risk, the department operates a "fraud, waste and abuse" hotline.

Durham's Annual Community-Wide Results Based Accountability Project

At the end of every day, most of us ask ourselves, "What did I accomplish?" City and County government officials are asking ourselves: "What have we accomplished to make lives better for our citizens?"

To help answer these tough questions, Durham City and County governments created the Results Based Accountability (RBA) initiative during 2004. RBA recognizes that no one entity (even one as large as the City or the County government) can make sufficient progress by itself in any area. Significant change requires coordinated action among all members of our community. Working together with many concerned citizens eager to get involved, we created community workgroups around eight different goals.

1. Durham citizens are safe.
2. Durham enjoys a prosperous economy.
3. Durham citizens enjoy a healthy environment.
4. Durham citizens enjoy a community that is vibrant, rich in aesthetic beauty and embraces and promotes its cultural heritage.
5. Children are ready for and succeeding in school.
6. Every citizen in Durham has access to adequate, safe and affordable housing.
7. Durham citizens are healthy.
8. Durham citizens enjoy sustainable, thriving neighborhoods with efficient and well-maintained infrastructure.

Copies of "Durham's Annual RBA Report - Fall 2006" are available from the City Manager's Office (phone 560-4222). The report card is also available on the City's web site: www.durhamnc.gov.



ACCOLADES AND AWARDS

2006 Durham Accolades

National Association of Developmental Education - February 2006

Durham Technical Community College's Developmental Studies Program, named the "Most Outstanding in the Nation."

Forbes - May 2006

Durham ranked as the #8 Best Place for Business and Careers.

Newsweek - May 2006

Durham's Jordan, Riverside and Northern high schools ranked among the nation's top 1,200 high schools.

Bizjournals.com - June 2006

Durham #8 on list of America's brainiest medium-sized cities.

U.S. Census Bureau - June 2006

Durham, 52nd fastest-growing city among the nation's 260 cities with 100,000 or more residents.

Primacy Relocation/Worldwide ERC - June 2006

The Raleigh-Durham-Chapel Hill area, #30 on the list of Best Regions for Relocating Families.

The Princeton Review - July 2006

The North Carolina Central University Law School is ranked as one of the nation's Top 170 Law Schools.

National Venture Capital Association - July 2006

Durham leads both the Triangle region and North Carolina in venture capital funding, with \$68,820,000.

2006 City Council



Front row (from left) are Mayor Pro-Tem Cora Cole-McFadden, Mayor William V. "Bill" Bell, Diane N. Catotti. Back row (from left) Howard Clement, III, Eugene A. Brown, Mike Woodard and Thomas Stith, III.



Awards

The Government Finance Officers Association of the United States and Canada (GFOA) once again recognized the City for the quality of its Comprehensive Annual Financial Report issued for the previous fiscal year. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting practices and accepted legal requirements. This Certificate of Achievement for Excellence in Financial Reporting marks the 21st consecutive year and the 25th time in 27 years that the City has been so honored. In addition, last year's Citizens' Financial Report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the GFOA.

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

City of Durham
North Carolina

for the Fiscal Year Ended

June 30, 2005



Charles J. Brown
President
Jeffrey L. Case
Executive Director

TAXES

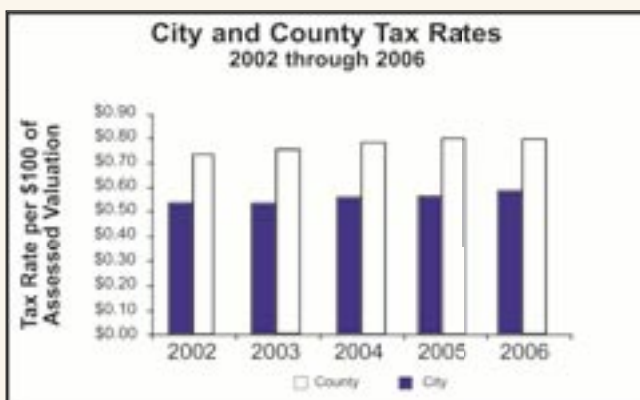
Property Taxes

Fifty-five percent of the City's General Fund (the City's primary operating account) revenues for the fiscal year ended June 30, 2006 came from property taxes. The percentage of revenues generated through property taxation has remained relatively stable for the past 10 years ranging from a high of 55.5 percent in 2002 to a low of 51.3 percent in 1997.

City and County Tax Rates

Most city tax payers pay both a city property tax and a county property tax on a combined bill. For FY 06-07 the city tax rate is \$0.603, while the county rate is \$0.809, for a combined rate of \$1.412. The tax rate is expressed per \$100 of assessed value. To calculate the tax on a property with an assessed value of \$140,000 you would multiply the tax rate times the assessed value and divide by 100, as shown below:

City Tax	\$0.603	* 140,000/100 =	\$ 844.20
County Tax	\$0.809	* 140,000/100 =	\$1,132.60
Total Tax			\$1,976.80

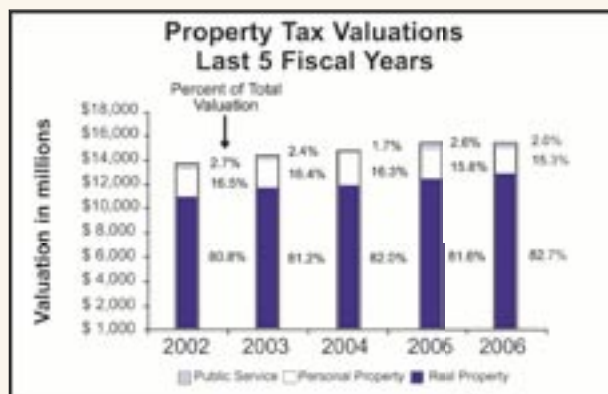


Annual Independent Financial Audit

North Carolina State Statutes require that an annual audit be performed by an independent certified public accountant. This annual audit relates to the City's Comprehensive Annual Financial Report (CAFR), and the purpose of the annual audit is to ensure that the City is complying with generally accepted accounting practices (GAAP). In addition to meeting statutory requirements, the audit also complies with the Federal Single Audit Act. As it has in previous years, this year's Independent Auditor's Report confirms that the City's financial statements "present fairly, in all material respects, the respective financial position" of the City of Durham. All financial statement information contained in the Citizens' Financial Report is in conformity with GAAP; portions of the information in this report are taken from financial statements that are contained in the City's CAFR. For more detailed financial information, as well as the full set of notes that accompany the financial statements, visit the City's web site at www.durhamnc.gov.

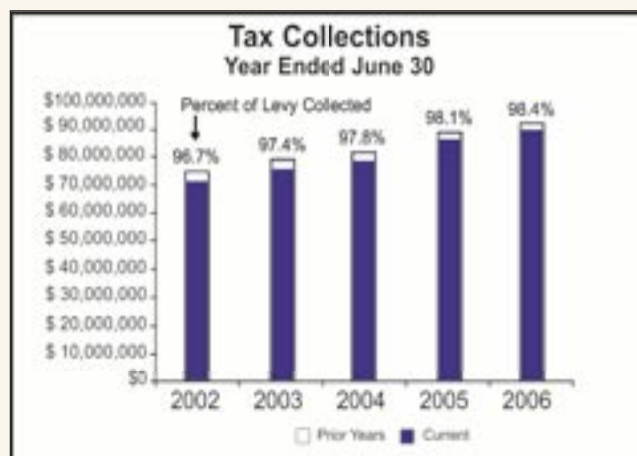
Property Valuations

Valuation of property for the purpose of tax assessment is a function of county government. Generally, in North Carolina, the value of property in the county is set every eight years through a reappraisal (revaluation) process. The last reappraisal for Durham County was January 1, 2001. That means that all property is assessed at 100 percent of market value as of January 1, 2001 until the next reappraisal. The Board of County Commissioners has set an effective date for the next general reappraisal for January 1, 2008. The reappraisal period is being reduced from eight years to seven years in order to reduce inequities created by fluctuations in the market between reappraisal dates.



Tax Collections

City property taxes are collected by Durham County under an interlocal agreement. The tax collection performance has improved considerably in the past six years, from a low of 95.28 percent in FY 2000-01 to 98.36 percent for FY 2005-06. This brings City tax collections on par with other large cities in the state.



DEBT ADMINISTRATION

Credit Ratings

During the year the City continued to maintain the highest possible credit ratings from the three major national bond rating agencies. Credit ratings represent objective third party opinions concerning the City's ability to meet its financial commitments. The City of Durham's credit ratings listed below represent the highest given for general obligation debt:

- Moody's Aaa
- Standard and Poor's AAA
- Fitch AAA

The three bond rating agencies reaffirmed their confidence in the City's financial management and its economic outlook, making the City one of very few cities in the United States awarded this rare distinction. Only a few dozen cities throughout the United States have been granted AAA ratings, the highest rating, and only a handful can claim they have received the highest score from all three.

Each bond rating agency said it granted the AAA rating in recognition of the City of Durham's solid financial management, stable growth and its ability to support existing and planned debt obligations. This is great news for our citizens. It speaks volumes as to how well the City manages its fiscal business. The AAA bond rating by all three agencies results in lower interest rates on the bonds we sell, which in turn means savings for the taxpayers of Durham.

Bond rating agencies are independent corporations that provide assessments of a city's fiscal stability for potential investors. Ratings are intended to characterize the risk of holding a bond. These ratings, or risk assessments, in part determine the interest rate that the City must pay to attract purchasers of its bonds. The ratings are expressed as a series of letters and digits. Bonds which are rated AAA are judged to be of the best quality. AAA bonds carry the smallest degree of investment risk and are generally referred to as "gilt edged."

These ratings are particularly important for Durham because they lower borrowing costs to the City, saving taxpayers millions of dollars in future interest payments. High bond ratings mean the City is able to sell general obligation bonds to finance capital projects at lower interest rates, including the \$110 million bond package approved by voters on November 8, 2005.

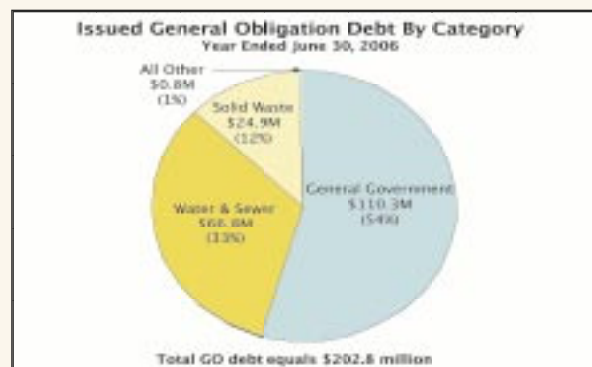
Durham is one of 18 cities in the nation to achieve the highest debt rating from all three rating agencies. High credit ratings affirm a belief and confidence in the City's sound fiscal management, and allow the City to issue debt at lower interest rates, which translates into savings for City taxpayers.

General Obligation Bonds

The City is permitted to issue general obligation bonds that provide long-term financing for projects for which the City pledges its full faith and credit to repay the debt.

North Carolina General Statutes limit the amount of debt that a unit of government can issue to 8 percent of the total assessed value of the taxable property located within that government's

boundaries. Currently, the City has issued, or is permitted to issue \$435,498,175 in debt, leaving an unissued capacity of \$830,975,264, or an unissued debt margin of 66 percent.



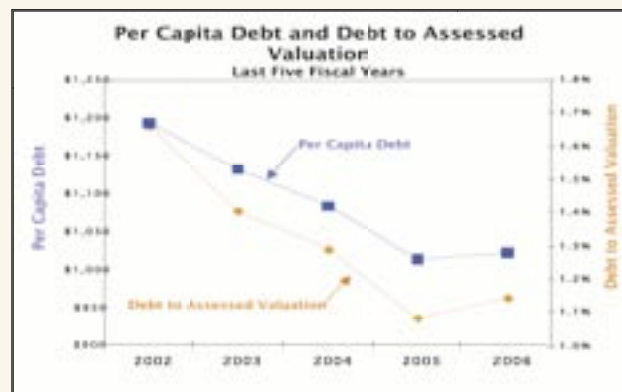
New Debt Issues

During September, 2005, the City issued approximately \$25,000,000 in general obligation bonds to provide funds for housing improvements, street improvements, parks and recreational facilities, municipal buildings, sanitary and sewer improvements, and public safety communications equipment.

During November, 2005, the City issued \$23,545,000 in general obligation refunding bonds and \$18,605,000 in water and sewer revenue refunding bonds. The general obligation bonds were sold with an interest cost of 4.26 percent, saving taxpayers \$1.02 million in debt service payments over the life of the bonds. The revenue bonds were sold with an interest cost of 4.3 percent, with savings of \$472,410 over the life of the bonds.

Debt Capacity

In addition to the legal debt margin, the City tracks several other benchmarks that provide guidance in determining how much debt the city can afford. Two of these measures are debt per capita and the ratio of debt to assessed valuation. The movement of these benchmarks over the last five years is illustrated in the chart below.



Other Types of Debt

In addition to general obligation bonds, the City has categories of debt that are not tax supported. Revenue bonds are pledged by the net revenues from the facility financed by the bonds, such as a utility system. On June 30, 2006, the City had \$39,350,000 outstanding in revenue bonds. Certificates of participation (COPs) are installment purchase agreements that pledge the value of the bonded asset to the buyers. On June 30, 2006, the City had \$71,380,000 outstanding COPs.

General Obligation Bonds Authorized and Unissued

On November 8, 2005, voters approved a \$110 million general obligation bond package. Currently, \$10 million of these bonds have been issued, and the City has the authority to issue an additional \$100 million bonds. These authorized and unissued bonds, that must be issued prior to November 2012, are for the following purposes:

• Parks & Recreation	\$38,333,000
• Water and Sewer Improvements	\$18,000,000
• Streets and Sidewalks	\$15,509,000
• Cultural Facilities	\$ 9,005,000
• Parking	\$ 6,342,000
• Public Improvements	\$ 6,113,000
• Public Safety	\$ 5,195,000
• Neighborhood Improvements	\$ 1,500,000

The City is advancing on all fronts with many projects funded by the 2005 bond referendum. For example, this year a new playground was installed at the W.D. Hill Recreation Center and Phase I of the Long Meadow Park and Playground renovations were substantially completed. Design progress continued for the Old Chapel Hill Road Park, the Walltown Recreation Center, and Oval Drive Park. A contract was completed for the Armory upgrade, the Carolina Theatre retrofit, the Civic Center upgrade and the Police headquarters upgrade.

FRAUD HOTLINE

The City of Durham's Audit Services Department has an "online hotline" to help ensure fiscal responsibility and accountability throughout the City organization. Any person may file an anonymous or confidential report to disclose alleged fraud, waste, or abuse of City property and resources. A Fraud/Waste/Abuse Information Report form is available online at www.ci.durham.nc.us/departments/audit/fraud.cfm. Your name and e-mail address will not appear anywhere on the report unless you complete the confidential information section. A report can also be made by calling the Audit Services Department at 560-4213 during regular business hours, 8:30 a.m. to 5 p.m. Monday through Friday.

Online Capital Project Status Report

In October 2005, the City of Durham introduced a new tool that citizens and other interested parties can use to monitor the progress on more than 200 City capital projects, including projects funded by the 2005 bond referendum. The system allows visitors to the City web site at www.durhamnc.gov/cip/ to view information about ongoing and planned City capital improvement projects ranging from park renovations to street paving. In addition to descriptions of the project scope and financial details, the site provides an estimated date of completion and a monthly status report by the project manager. Most of the projects also have a link to the City's Geographic Information System that provides a street map highlighting the project's location. For additional information about specific projects, an e-mail link is available to contact the project manager directly.

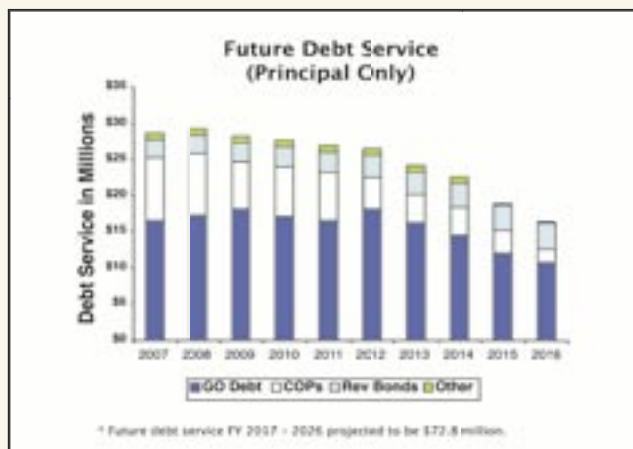
Long-Term Financial Planning

Durham continued with its forward-looking capital budget, presenting a long-term Capital Improvement Program (CIP) to Council. The CIP is a statement of the City of Durham's policy regarding long-range physical development. It is vital to the City because it is the principal planning tool designed to achieve urban growth and development. This program is developed for a six year period and is updated and revised annually. To be included in the CIP, a project requires a total expenditure of at least \$100,000 and a useful life of at least 10 years.

Future Debt

On November 1, 2006, the City issued \$21,775,000 in general obligation bonds. The debt will provide funding for improvements to housing, parks and recreation facilities, streets and sidewalks, public transportation, cultural facilities, parking facilities, public safety facilities, water and sewer, and various other public improvements.

During January 2007, the City intends to issue approximately \$44,000,000 in COPs. Approximately \$32,000,000 of the certificates will be used for the construction of a downtown Durham performing arts center. Approximately \$12,000,000 will be used to replace City vehicles.



GREAT THINGS ABOUT DURHAM...

Durham has always been and continues to be a creative and entrepreneurial community where diverse and passionate people come together to shape a better world. Here are some of the great things about Durham.

Whether you're into history or sports, art or science, architecture or African-American heritage, Durham has some places you won't want to miss. Here are just a few of the things worth seeing in Durham:

- Bennett Place State Historical Site
- Historic downtown, American Tobacco, and Brightleaf Districts
- Duke Chapel and the Sarah P. Duke Gardens
- Duke Homestead State Historic Site and Tobacco Museum
- Hayti Heritage Center
- Historic Stagville
- The North Carolina Museum of Life and Science
- Nasher Museum of Art at Duke University and North Carolina Central University Art Museum
- Patterson's Mill Country Store
- West Point on the Eno City Park
- Durham Bulls Athletic Park

Durham African-Americans have made tremendous contributions to the state and the nation, from pioneering the Piedmont Blues to heading the U.S. Olympic Committee. Here are a few of the things Durham's African-American citizens have accomplished over the years:

- Largest black-owned financial institution
- One of the nation's strongest African-American owned and managed banks
- The first civil rights sit-ins to protest segregation
- The second library in North Carolina

- The first publicly supported liberal arts college
- The first interracial basketball game
- Piedmont Blues style of music
- Architectural design of Duke University
- Basketball fast break/zone press innovations
- One of the first autonomous religious congregations

When it comes to sports, Durham is home base. Here are just a few of Durham's all-stars:

- Durham Bulls Triple-A Baseball
- Duke University Blue Devils
- North Carolina Central University Eagles
- Lady Eagles Classic
- Duke Children's Classic
- City of Medicine Fitness Festival
- Crystal Downs Polo
- The Durham Striders and Carolina Godiva track clubs
- USA Baseball

Over the years, Durham has spawned some pretty remarkable ideas. From headache powders to bar code scanners, and from research parks to Astroturf, Durham has led the way:

- 3-D ultrasound
- Alzheimer gene breakthrough
- Astroturf
- AZT development
- Barcode reader
- BC Headache Powders
- Childproof caps on medicine bottles
- Ctrl-Alt-Delete computer command
- Digital cellular telephone
- On-board plane wind shear warning



WHY WE LOVE DURHAM...

During May 2006, the *Independent Weekly* asked readers to tell them what they love about Durham, and they got nearly 100 responses. Here is a selection, reprinted with permission.

"I moved back to Durham after five years in New York City. The reason: There are millions of interesting people from all walks of life in New York, but somehow you never get to meet that many of them. And there are thousands of interesting people from all walks of life in Durham, but somehow you get to meet a lot of them. I feel my life has been enriched even more by living here than by living in the largest city in the country, just by showing up at the grocery store, the coffee shop, the Y, the neighborhood."

--The Rev. Catherine A. Caimano

"I love Durham because we're like a dysfunctional family trapped around a holiday table for all eternity. We take turns erupting like emotional volcanoes, hurling accusations, revealing disappointments — and arguing for a bigger piece of the pie because, back in 1972, David got the last slice and it just wasn't fair. How is this good? I'm an optimist. I believe honesty is the first step toward change. I believe that wiser leaders could use our passion to shape Durham into a strong community — one that makes room at the table for everyone because we're all part of the same family."

--Katy Munger

"It is very simple! When walking down the street and you say good morning to someone, the reply is a good morning back."

--Bob Appleby

"A few years ago during a morning stroll in downtown Durham, a young man approached and with great enthusiasm told me about his new restaurant, the Cocoa Café. He urged me to give it a try. I agreed. We walked a few blocks and to my surprise entered another business, Mr. Shoe. In the back of the store an old man waited on a customer. Near the front, amid the racks of repaired shoes, was a table and two chairs and a counter with several packages of store-bought cocoa. I smiled as the young man boiled some water. He asked how I liked the cocoa. I told him it was great. I left the Cocoa Café, amused by Durham's quiriness. Later that evening, I spotted him handing out business cards on Ninth Street."

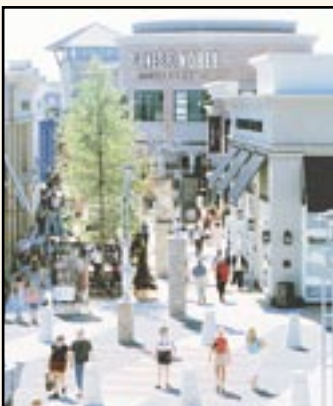
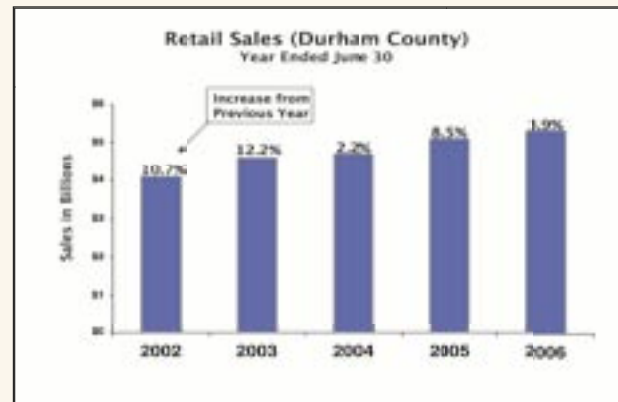
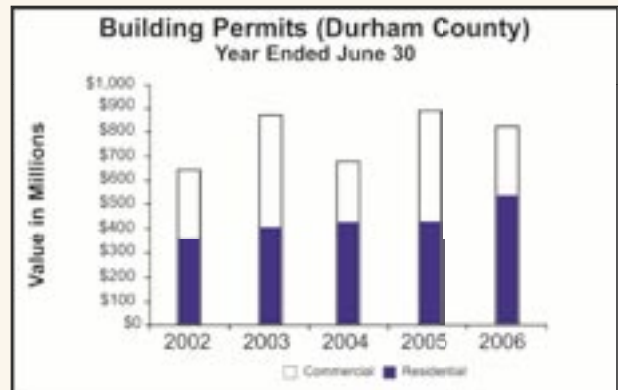
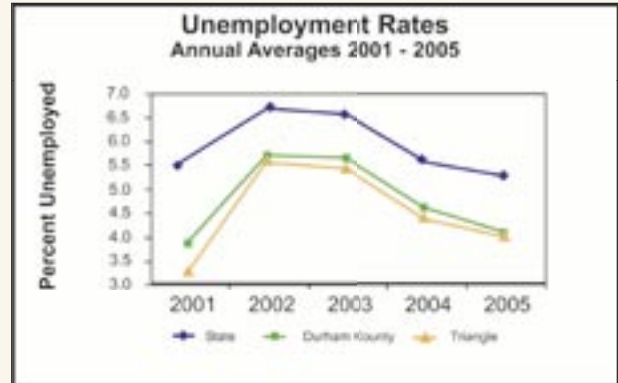
--Bill Pope



DURHAM ECONOMIC OVERVIEW 2006

The City of Durham is the county seat for Durham County, an integral part of the vibrant Research Triangle Park region and home to both Duke University and North Carolina Central University. Durham's diverse economy consists of high-technology manufacturing and research and many Fortune 500 companies are located here (IBM, Cree Inc, and GlaxoSmithKline are three of the top private employers). Other industries that contribute to Durham's prosperity include education, health care, trade and services. The city's jobless rate of 3.8 percent in June 2006 remains consistently below the state and national rate, attesting to the strength of the local economy. The city's population grew by 12.6 percent since 2000 alone to the 2006 level of 210,553, in part due to rapid development and periodic annexations. Another planned annexation is anticipated to add 2,000 new residential units and \$500 million to the city's tax base in 2007 and 2008. The city's taxable values have increased by an average of 3.7 percent annually over the last five years, and a planned revaluation in 2008 should increase the tax base significantly, as the last reappraisal lifted values by 40 percent. Resident wealth levels are above the state level, despite a significant student population at Duke University (enrollment of approximately 14,000) and North Carolina Central University (enrollment of approximately 8,200).

In addition to new growth and development taking place across the city, a major redevelopment project downtown has seen the renovation and adaptive reuse of the American Tobacco warehouses located adjacent to the Durham Bulls Athletic Park. The American Tobacco facility will house approximately 1 million square feet of office and lab space, hotel, retail and some residential, and is slated to be the largest historical renovation project in North Carolina. Phase I of this project is complete with 1,500 jobs. It is fully leased with several large tenants including Duke University, GlaxoSmithKline, and Compuware. The project is expected to bring over 3,000 new jobs to downtown once all four phases are complete. Another major project, Blue Devil Venture's West Village Phase II, will add seven additional tobacco warehouses that will be converted into residential condos, retail, office, and lab space. In addition to these projects, the City will soon break ground on a downtown theater and events center project that will be jointly funded by the City and Duke University.



DEVELOPMENT PROJECTS

Parrish Street

Perhaps the most profound example of the intersection of culture with commerce may be found in the redevelopment of Parrish Street, historically recognized as the Black Wall Street.

Recently, a report was published to guide the redevelopment of Parrish Street, one of the three most significant African

American economic enclaves in the United States during the late-19th and early 20th centuries. The report's two recommendations are to "reach an understanding and deep appreciation of the influential people and historically important events that happened on Parrish Street — the heritage of the Black Wall Street"; and to use "that story to leverage economic renewal — the development of a more vital, inclusive, vibrant, and livable place in the middle of downtown Durham." A central part of the plan is to create a "museum without walls" that would extend throughout the district and beyond.

Capital Improvement Program

The City of Durham is moving forward with the implementation of the largest capital improvement program in its history. During November 2005, voters overwhelmingly granted approval for the City to issue \$110 million in general obligation bonds for long-needed street, water and sewer, parks and recreation, and public facility improvements both in downtown and throughout the city. A wide range of capital improvements are planned that will affect and improve every aspect of the city's infrastructure and will support the city's economic and private development projects.

American Tobacco

This exciting development has resulted in the renovation of over one million square feet of the historic American Tobacco manufacturing campus into office space, lab space, hotel, residential, and commercial space. The northern section of American Tobacco is nearing completion with the new corporate homes for Motricity and Duke Corporate Education. Combined public and private investment in this project will near \$200 million.

Blue Devil Ventures' West Village Phase II

The \$150 million West Village Phase II project is under construction and will add seven additional tobacco warehouses that will be converted into residential



This historic marker celebrates the history of Parrish Street, one of the three most significant African American economic enclaves in the United States during the late-19th and early 20th centuries.



The Old Bull Building at the corner of Blackwell and Pettigrew streets is part of the Phase II renovations underway at the American Tobacco Campus.



West Village Phase II is a project that will convert former tobacco facilities into residential condos, retail, office and lab space.

condos, retail, office and lab space in the Warehouse District. The project will add more than 990,000 square feet of space, consisting of 400 loft apartments with high-end finishes and amenities, over 53,000 square feet of retail space on Main Street, green space, landscaped plazas and Durham's new Amtrak station.

Durham Transportation Center

Downtown will be home to a comprehensive, multi-modal transportation center including buses, rail, and taxi service. Current plans call for 23 bus bays for DATA, TTA and Carolina Trailways/Greyhound and an office building totaling 15,600 square feet, including a lobby, ticketing space, office, and storage. The station will be easily accessible from the future Amtrak station via a pedestrian bridge. The total projected investment will be between \$14 million and \$18 million.



This artist rendering shows the latest concept for the Durham Transportation Center, a multi-modal facility for buses and taxi service.

Durham Performing Arts Center

The \$44 million Durham Performing Arts Center has been approved by the City and is under construction across from the American Tobacco campus. The 2,800-seat theater will bring events and cultural activities, including Broadway productions, to the downtown entertainment/theater district.



Groundbreaking ceremonies were held in December for the new \$44 million Durham Performing Arts Center.

Other Developments

During the year, business development announcements came at a rapid pace with firms like Eisai, Stiefel Labs, Abraxis BioScience, Empire Distributors, and United Therapeutics deciding to call Durham home — or expanding in Durham. In addition, North Carolina Central University, Durham Tech, and Duke University continued to grow, expand, and plan for the future.



Renovation of this former Venable Tobacco Company building is part of the development of the Triangle Biotechnology Center at Venable.

More Excitement On The Horizon

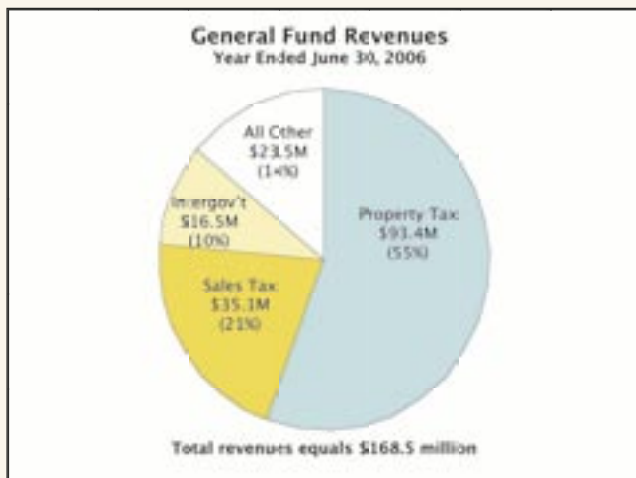
Heritage Square, Golden Belt, Gateway, and Durham Athletic Park projects are in the planning stages. Stay tuned ...

GENERAL FUND

The General Fund is the City's primary operating fund, and accounts for the revenue and expenditures associated with operating traditional local governmental services such as police, fire, and parks and recreation.

General Fund Revenues

For the fiscal year ended June 30, 2006, the General Fund revenue totaled \$168.5 million. The three largest sources of revenues are property tax, sales tax, and intergovernmental revenue.



Property Tax

The City's property tax is levied based on the full cash value of property from the previous calendar year as determined by the Durham County Tax Assessor, and the rate is established during the annual budget process. The City collected \$93.4 million in property taxes for the year ended June 30, 2006, exceeding prior year collections by \$4.0 million.

Sales Tax and Intergovernmental Revenue

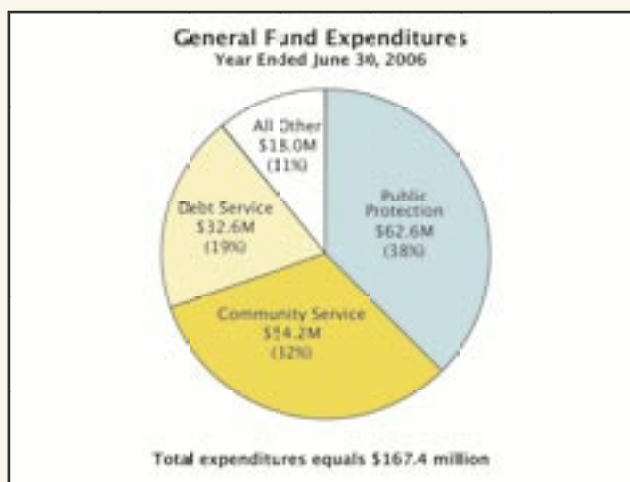
Sales tax is levied on the sale, lease or rental of all taxable goods within Durham County. Purchasers of these goods and services pay the tax. Sales tax is collected by businesses at the time of sale and then paid monthly to the North Carolina Department of Revenue, Sales and Use Tax Division. The Department of Revenue remits that portion due the county and municipalities in the county based on a per capita formula.

The state levies a retail sales tax on all retail sales. Most services and prescription drugs are exempt from sales tax. Sales tax is an important revenue source for the City, representing 21 percent of General Fund revenue for FY 2005-06.

Total taxes collected represented about 76 percent of the City's total operating budget. The remaining revenues totaling approximately \$40 million came through licenses and permits, charges for services, inter- and intra-governmental services and other miscellaneous revenue.

General Fund Expenditures

Total expenditures for the fiscal year ended June 30, 2006, were \$167.4 million, which was within the budgetary authority of \$183.9 million.



Public Protection expenditures of \$62.6 million represent the costs of providing both police and fire protection, and also include police and fire equipment, emergency management, and communications. The single most important issue raised by the City Council and Durham residents is crime reduction. The police department represents the largest portion of the public protection budget.

Community Services and Development expenditures of \$54.2 million represent the cost of supporting neighborhoods to enhance the quality of community life in Durham. Citizens have made it clear that they are interested in support of neighborhoods. Community Services and Development is comprised of seven departments: Planning, Inspections, Housing, Public Works, Parks and Recreation, Water Management and Solid Waste Collections.

Debt Services expenditures were \$32.6 million. The City manages its long-term financing needs through periodic issuance of general obligation bonds. Debt service expenditures include principal and interest payments on the City's outstanding bonded debt. In addition to general obligation bonds, the City issues revenue bonds and enters into installment sales/lease obligations as allowed under state statutes.

All Other expenditures of \$18.0 million include the following:

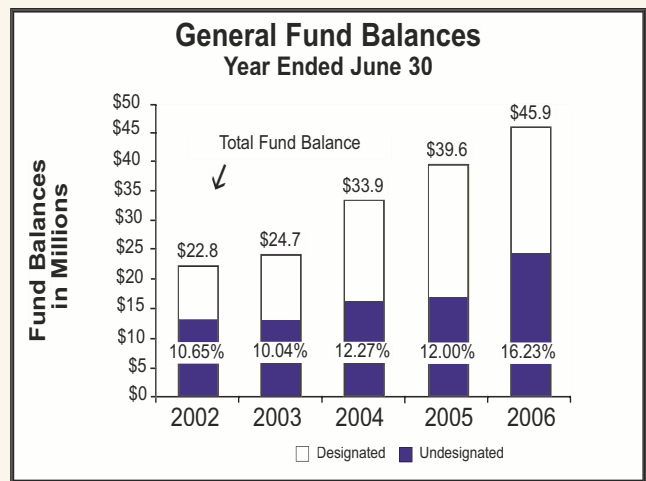
- Administrative and Support Services expenditures of \$8.6 million represent the costs of providing financial, general and administrative services to the public. It is comprised of five departments: Human Resources, Human Relations, Technology Solutions, General Services and Finance.

- Governance expenditures of \$5.6 million include all areas of the City involved in the administration and legislative aspects of conducting City business. It is comprised of eight departments: City Council, City Manager, City Attorney, City Clerk, Budget and Management Services, Audit Services, Equal Opportunity and Equity Assurance, and Economic and Employment Development.

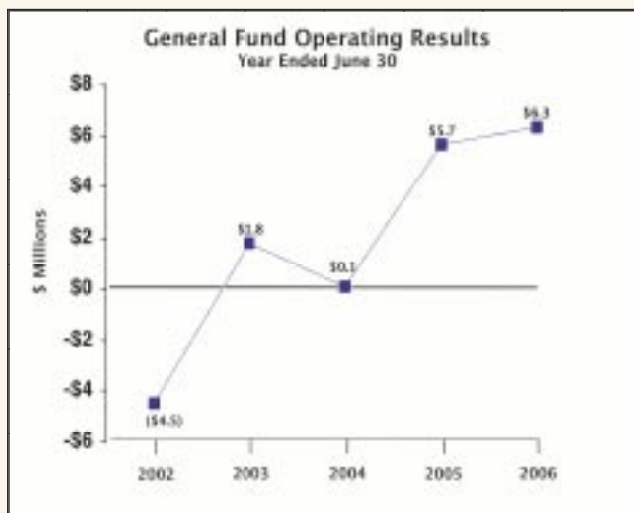
- Other Financing Uses expenditures of \$3.8 million include transfers between funds for specific purposes.

Fund Balance

A key measure of the City's overall financial health is the fund balance. The fund balance is the undesignated reserve in the City's General Fund. The City Council has adopted a policy of maintaining an undesignated fund balance of no less than 12 percent of budgeted appropriations, adjusted for debt service and transfers to other funds. The FY 2006 undesignated fund balance is 16.23 percent of FY 2007 budgeted appropriations, an increase of 4.23 points above last year.



General Fund Operating Results	2002	2003	2004	2005	2006
Revenues	\$132,528,752	\$142,654,018	\$146,603,864	\$162,929,772	\$168,500,057
Other Financing Sources	2,700,375	18,963,888	6,875,880	8,944,446	15,561,763
Total Revenues	135,229,127	161,617,906	153,479,744	171,874,218	184,061,820
Expenditures	129,390,494	132,796,001	144,614,859	154,933,610	167,365,220
Other Financing Uses	10,303,548	27,008,270	8,761,732	11,277,730	10,369,246
Total Expenditures	139,694,042	159,804,271	153,376,591	166,211,340	177,734,466
Operating Results Over/(Under) <i>See chart below.</i>	(4,464,915)	1,813,635	103,153	5,662,878	6,327,354
Operating Results Revenues & Expenditures Only	\$3,138,258	\$9,858,017	\$1,989,005	\$7,996,162	\$1,134,837



STATEMENT OF NET ASSETS

(Year ended June 30, 2006)

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Current assets			
Cash and cash equivalents/investments	\$ 70,652,621	\$ 88,659,950	\$ 159,312,571
Taxes receivable, net	3,327,069	-	3,327,069
Accounts receivable	1,374,355	12,809,903	14,184,258
Assessments receivable, net	231,572	995,395	1,226,967
Accrued investment income	722,738	681,967	1,404,705
Notes receivable	31,209,304	551,511	31,760,815
Due from governmental agencies	15,719,848	1,676,930	17,396,778
Inventories	441,961	751,817	1,193,778
Restricted cash and cash equivalents/ investments	33,133,459	2,934,085	36,067,544
Total current assets	156,812,927	109,061,558	265,874,485
Noncurrent assets:			
Investment in joint venture	2,431,534	-	2,431,534
Capital assets:			
Land and other nondepreciable assets	29,314,774	45,699,178	75,013,952
Buildings, equipment and depreciable assets net of accumulated depreciation	362,487,207	453,504,376	815,991,583
Restricted cash and cash equivalents/ investments	166,071	1,951,989	2,118,060
Prepays	1,431,165	-	1,431,165
Internal balances	(1,992,305)	1,992,305	-
Total noncurrent assets	393,838,446	503,147,848	896,986,294
Total assets	550,651,373	612,209,406	1,162,860,779
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,762,213	\$ 5,559,367	\$ 12,321,580
Accrued payroll	1,700,071	281,818	1,981,889
Employee taxes and related withholdings	1,507,097	-	1,507,097
Accrued interest	1,404,292	15,575,352	16,979,644
Deposits and payments held in escrow	2,427,399	864,458	3,291,857
Unearned income	3,229,970	2,193,640	5,423,610
Current portion of due to Durham County	-	880,000	880,000
Current portion of bonds payable	-	10,007,833	10,007,833
Current portion of due to the State of North Carolina	-	885,000	885,000
Current portion of accrued compensated absences	5,250,000	750,000	6,000,000
Current portion of certificates of participation	999,128	1,515,000	2,514,128
Current portion of pending claims	3,023,968	-	3,023,968
Total current liabilities	26,304,138	38,512,468	64,816,606
Noncurrent liabilities			
Due to Durham County	-	30,675,407	30,675,407
Bonds	112,695,787	121,345,030	234,040,817
Due to State of North Carolina	-	7,275,000	7,275,000
Certificates of participation	61,260,024	8,225,830	69,485,854
Accrued compensated absences	3,762,622	307,895	4,070,517
Post closing costs	-	7,125,318	7,125,318
Pending claims	2,104,397	-	2,104,397
Total noncurrent liabilities	179,822,830	174,954,480	354,777,310
Total liabilities	206,126,968	213,466,948	419,593,915
NET ASSETS			
Invested in capital assets	248,678,162	323,254,359	571,932,521
Restricted expendable for:			
Capital Projects	-	2,509,399	2,509,399
Durham Hosiery Mill	1,607,979	-	1,607,979
Civic Center	2,431,534	-	2,431,534
Restricted nonexpendable for:			
Over funded net pension obligation	1,431,165	-	1,431,165
Unrestricted	90,375,566	72,978,700	163,354,266
Total net assets	\$ 344,524,406	\$ 398,742,458	\$ 743,266,864

The notes to the financial statements are an integral part of this statement.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City of Durham's finances in a manner similar to a private-sector business. The statement of net assets presents information on all of the City of Durham's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Durham is improving or deteriorating. The government-wide financial statements, the statement of net assets and the statement of activities, report information on all the non-fiduciary activities of the primary government and its blended component units. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The government-wide statements have incorporated long-term and short-term information to provide a complete picture of the City's finances. They also account for all revenues and expenses connected with the fiscal year, regardless of when the cash was received or spent.

The Statement of Net Assets on page 13 includes governmental and business-type activities. The assets of the City exceeded liabilities by \$743,266,864 at June 30, 2006. For the period ending June 30, 2005, the amount was \$317,525,363. Net assets are reported in three categories: Invested in capital assets of \$571,932,521, restricted net assets of \$7,980,077, and unrestricted net assets of \$163,354,266. At June 30, 2005, these amounts were \$167,299,253, \$2,296,628 and \$147,929,482 respectively.

Governmental Activities

Governmental activities increased the City's net assets by \$34,534,649; this accounted for approximately 54 percent of the total growth of net assets. Infrastructure additions related to GASB 34 increased net assets by \$147,358,660. Tax revenues collected (\$138,906,830) were approximately 4 percent more than taxes collected in the prior fiscal year (\$133,612,890). Tax revenues covered approximately 83 percent of governmental activity expenses. Public safety accounted for approximately 40 percent of all expenses in governmental activities.

TECHNOLOGY UPDATE: ENTERPRISE RESOURCE PLANNING SOFTWARE

Durham is looking at more changes than in the last 20 or 30 years. New buildings are going up. Old buildings are coming down or are being renovated. One-way streets are becoming two-way. Public plazas now exist where they have never been before. These are all changes you can see and feel. There is, however, another important change taking place that is less visible, but equally as important. The new Enterprise Resource Planning (ERP) software is modernizing the way the City of Durham does business. Over the past 20 to 30 years, the City has conducted its primary business functions with more than 30 separate computer programs.

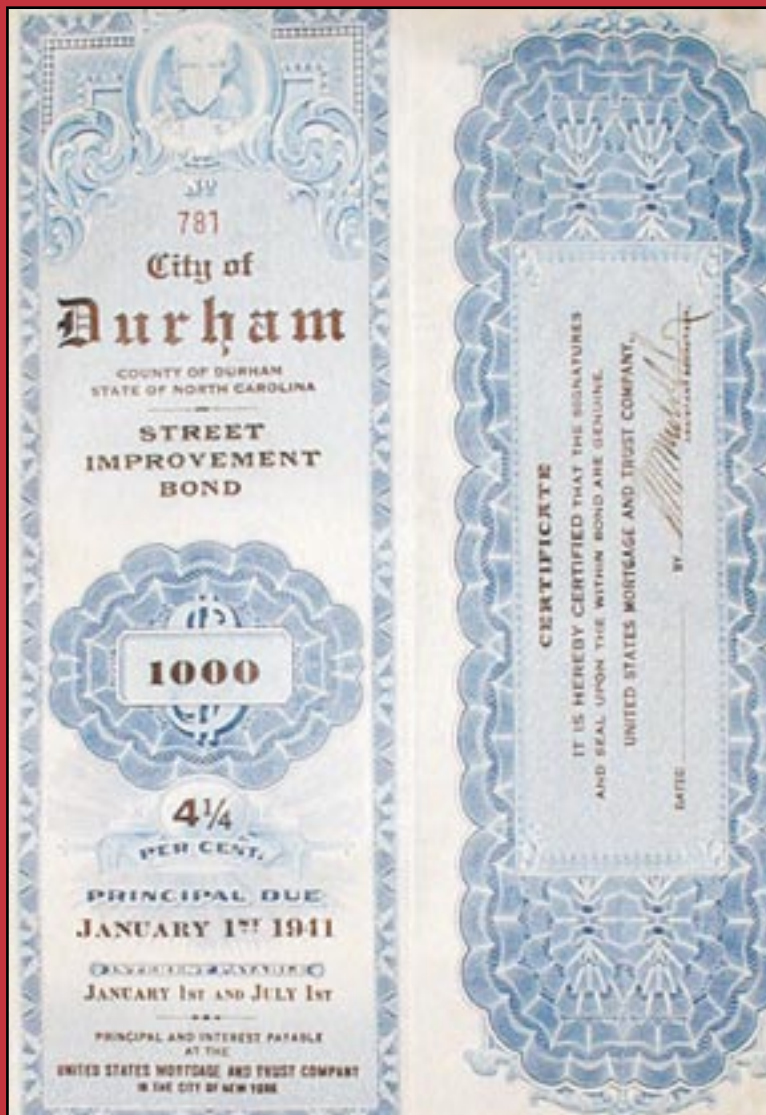
There was a system to place orders with vendors; a system to pay bills; a system to collect money for the water we sell citizens; and a system to issue payroll checks. There was even a system, separate from the pay system, which was used to track employees' leave and vacation time. All these programs were mainframe based, and all were written in a computer programming language that is now obsolete. On July 1 of this year, the City went live with the first phase of the new ERP computer system. The ERP software will replace all of the obsolete computer programs. We have entered into a new technological era for the City of Durham.



Notice Under the Americans with Disabilities Act (ADA)

The City of Durham will not discriminate against qualified individuals with disabilities on the basis of disability. Anyone who requires an auxiliary aid or service for effective communications or assistance to participate in a City program, service, or activity, should contact the ADA Coordinator at (919) 560-4197 x254, TTY: (919) 560-4809 or ada@durhamnc.gov, no later than 48 hours before the scheduled event.





Just like in 1941, when this street improvement bond was issued, bonds are still an integral part of municipal financing.

THIS CITY OF DURHAM CITIZENS' FINANCIAL REPORT
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For more information about the City Finance Department,
visit www.durhamnc.gov/departments/finance/ or call 560-4455.

For more information about City of Durham services,
visit the City's web site at www.durhamnc.gov or call Durham One Call at 560-1200.

